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C O N F I D E N T I A L SECTION 01 OF 04 TAIPEI 001202

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TAGS: [ECON](#) [EINV](#) [EAIR](#) [PGOV](#) [PREL](#) [CH](#) [TW](#)  
SUBJECT: A HSIEH PRESIDENCY WOULD LIKELY ACCELERATE  
CROSS-STRAIT ECONOMIC OPENING

Classified By: AIT Director Stephen M. Young, Reason 1.4 d

¶1. (SBU) Summary: Economic scholars and a political advisor close to Frank Hsieh describe the Democratic Progressive Party presidential candidate as "flexible" and "pragmatic" in his approach to cross-Straits economic relations. They believe that, as President, Hsieh would be more willing to open Taiwan economically to China than Chen Shui-bian has been. Hsieh's record as Premier in 2005 further suggests more opening. The pressure for cross-Straits economic liberalization will continue after the 2008 election, and some of the constraints that the Chen administration has faced may be less severe for Hsieh, if elected. Hsieh would likely continue cross-Straits discussions on charter flights and tourism and might face better prospects for success. His approach to investment restrictions is less clear. End summary.

Hsieh Will Be Flexible, Pragmatic  
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¶2. (SBU) As Taiwan's presidential election in early 2008 approaches, the two candidates' approach to cross-Straits relations will be a defining economic issue. Many voters will be attempting to gauge how far the DPP candidate, Frank Hsieh, might break from the policies of President Chen Shui-bian, which have mitigated the pace of cross-Straits economic opening by preserving many restrictions.

¶3. (C) Wu Rong-i, the Chairman of the Taiwan Futures Exchange and former Vice Premier when Hsieh was Premier, told AIT he believed Hsieh as President would be "flexible" on cross-Straits issues. According to Wu, Hsieh believes that Taiwan should have self-confidence in dealing with China. He surmised that Hsieh would be generally more open to lifting cross-Straits economic restrictions than President Chen has been.

¶4. (C) Kenneth Lin, a Professor of Economics at National Taiwan University (NTU), who has been described in the media as one of Hsieh's few economic advisors, called Hsieh's approach to cross-Straits relations "pragmatic." Lin told us that any Taiwan President faces a trade off in managing cross-Straits relations between balancing

prosperity and security. They also face the same constraints in developing relations. However, Lin assessed that Hsieh would be less likely than President Chen to take provocative political actions that could set back cross-Strait economic relations.

15. (C) Corey Chen, a long-time assistant and close advisor to Hsieh, echoed Lin's analysis of the environment facing Taiwan's leaders in managing cross-Strait economic relations. He described the trade-off as one between opening and autonomy. However, he emphasized that Hsieh believes Taiwan can enjoy both. Chen believes that Hsieh would pursue further opening that appeals to Taiwan's centrist voters, but would continue to exert managerial control over the cross-Strait economic relationship.

#### Hsieh Already Has His Own Ideas

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16. (C) Lin observed that Hsieh does not rely on advisors to help him develop his cross-Strait policies because he already has his own ideas. Chen separately concurred with this assessment. He emphasized that Hsieh has longstanding consistent opinions about Taiwan-China relations. As president, Hsieh would pursue the same approach to cross-Strait issues that he has taken throughout his political career, according to Chen.

#### Record Suggests More Rapid Opening

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17. (C) Hsieh's record also suggests that he would pursue a policy of more rapid cross-Strait economic opening than

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has been the case under President Chen. During Hsieh's tenure as Premier from January 2005 to January 2006, Taiwan entered cross-Strait negotiations with China on cross-Strait charter flights and the further opening of Taiwan to PRC tourists. Taiwan agreed to conduct these discussions under the "Macao model" where each side is nominally represented by industry associations with government officials as advisors. Corey Chen pointed out to us that Hsieh's successor, Su Tseng-chang, was criticized by pro-independence supporters for the "Su revisionist line" in favor of cross-Strait economic opening. Chen argued that this approach to economic opening was actually initiated by Hsieh. He indicated that the "active management" policy for cross-Strait economic relations that President Chen announced in January 2006 just before replacing Hsieh was a rebuke of Hsieh's support for further opening.

#### Conditions Will Continue to Drive Further Opening

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18. (C) NTU's Professor Lin emphasized that any Taiwan President will face most of the same domestic and international conditions that currently drive cross-Strait policy decisions. These conditions have contributed to a slight acceleration in cross-Strait economic liberalization during the final years of the Chen administration, as marked by negotiations on charter flights and tourism and liberalization of investment policy for some high-tech industries. Many of the conditions that Chen Shui-bian faced as President would remain the same under a Hsieh administration.

19. (SBU) For example, some polling suggests that popular support for further economic opening is growing. Polls sponsored by the State Department's Office of Research showed that 62 percent of those polled thought direct links would be good for Taiwan in March 2007 compared to 49 percent in 2005. The Mainland Affairs Council's (MAC) own polling data show more support for cross-Strait

economic opening. From a low point in November 2003 of 18.1 percent, support for reducing regulations on investment in China has topped 30 percent in the last three polls (September 2006, December 2006 and April 2007). In December 2006, support for increased regulation dropped below 50 percent (49.7 percent) for the first time since MAC began publishing the poll. It rose again slightly to 52.5 percent in April.

¶10. (U) Pressure from Taiwan's business leaders to lift economic restrictions will also remain high. Many of Taiwan's most prominent business leaders, including some former supporters of Chen Shui-bian, criticize the administration's cross-Straits economic policies. These include industrial elites such as Taiwan Semiconductor Manufacturing Company founder Morris Chang, Acer Computer founder Stan Shih, and Evergreen Group founder Chang Yung-fa.

#### Some Constraints Could Relax

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¶11. (C) Despite Professor Lin's hypothesis that conditions will remain basically the same; some constraints that limit the President's ability to lift cross-Straits economic restrictions could be reduced under a Hsieh presidency. Chen Shui-bian has been restrained by opposition to cross-Straits opening from "Deep-Green," pro-independence supporters. The political influence of some Deep Green supporters may be diminished after the 2008 presidential election. The small Taiwan Solidarity Union (TSU), which has resisted cross-Straits economic liberalization, is likely to be marginalized in upcoming legislative elections in late 2007 or early 2008, at which time the size of the Legislative Yuan (LY) will be cut in half.

¶12. (C) TECRO's Corey Chen told us that Hsieh's camp is

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also hoping to neutralize potential opposition from Deep-Green politicians by emphasizing Hsieh's close, long-standing ties to Deep-Green leaders and their movement. Former Vice Premier Wu separately concurred that Hsieh's Deep-Green ties would help mitigate such opposition, noting Hsieh's key role in founding the DPP. Lin believes that Hsieh's Green credentials will make it easier for him to endure criticism for engaging China.

¶13. (C) Another important factor will be Beijing's attitude toward the next President. Any initiatives that require bilateral cooperation like cross-Straits charter flights and further opening Taiwan to PRC tourists need Beijing's active cooperation. Many observers believe that Beijing holds a relatively positive opinion of Hsieh among DPP politicians. This perception stems in part from Hsieh's unsuccessful attempt in 2000 when he was mayor of Kaohsiung to arrange a visit to Xiamen in China. In addition, former Vice Premier Wu argued that after a third DPP presidential election victory, Beijing, facing the prospect of another four years of DPP administration, would be more willing to work with Hsieh than it was with Chen.

#### Hsieh's Vision - The New Silk Road

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¶14. (C) Hsieh has recently described his approach to cross-Straits economic relations by calling for Taiwan to create a "New Silk Road." Hsieh believes that Taiwan should use its connections to China's rapidly growing market to attract foreign capital to Taiwan. Corey Chen told us that Hsieh's thinking on this concept was strongly influenced by Toyota's experience in Taiwan, which it has used as a base to develop and test market products for the greater China market.

¶15. (SBU) Hsieh's New Silk Road concept suggests that he would probably work toward direct transportation links that would make it easier for people to move back and forth across the Strait. This would include continuing negotiations on cross-Strait charter flights and tourism (initiatives that begun under Hsieh's premiership) if no agreement is reached during the last year of the Chen administration.

¶16. (SBU) Hsieh's writings on the New Silk Road give a less clear indication on how he would handle cross-Strait investment policies. Liberalizing restrictions on capital and technology flows to China are among the highest priorities of the Taiwan business community. Freer capital flows across the Strait could make Taiwan businesses more attractive partners for foreign investors looking to use the island as a greater China platform. However, in discussing the New Silk Road, Hsieh has cited the need to avoid capital outflows from Taiwan.

¶17. (C) Wu and Lin separately told us that Hsieh had tried to relax the "40 percent" capital ceiling on investment when he was Premier in 2005 but had not succeeded. (Note: Many Taiwan firms strongly object to what is widely referred to as the "40 percent" ceiling. The 40 percent ceiling is actually a graduated scale of limits that restricts many smaller firms from investing more than 40 percent of their paid-in capital in China. Larger firms are permitted to invest a smaller percentage of their total capital. End note.) Corey Chen said that Hsieh would look to relax both capital and industry-based restrictions on investment while focusing on preventing exports of sensitive technology to protect Taiwan's security. Wu conjectured that although Hsieh would likely seek to adjust the 40 percent ceiling to allow exceptions for certain firms, he might be unwilling to lift industry-based restrictions.

Comment - Faster than Chen, but How Fast?  
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¶18. (SBU) It appears likely that Hsieh, if elected President, would accelerate cross-Strait economic opening from the sluggish pace we've observed during the Chen administration. He might cross some of the red lines that Chen has avoided like relaxation of the 40 percent limit on investment in China. However, Hsieh would likely proceed more cautiously in economic opening compared to what we might see under a Kuomintang administration led by Ma Ying-jeou. (On the other hand, Hsieh may be better positioned to counter Deep-Green opposition than KMT's Ma.) Key factors might be Hsieh's ability to neutralize Deep Green opposition and Beijing's willingness to work with a DPP administration led by Hsieh.  
YOUNG